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SUBJECT: ROMANIA: PROFESSIONALS AND POLITICIANS DIFFER ON
DOMESTIC ENERGY PRIORITIES

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Classified By: Economic Counselor Blair L. Labarge for reasons 1.4 (b)
and (d)

(C) Summary. A meeting between Econoffs and Ministry of Economy and Finance (MEF) General Director Alexandru Sandulescu of the Energy Policy Department revealed interesting differences of opinion between a professional civil servant and his political superiors on several key domestic energy issues. A discussion that initially focused on renewable energy policy evolved into Sandulescu sounding discordant notes with regard to the GOR's proposed national energy "champion," the process of raising gas prices to international levels, and contracts on the energy exchange. The implication is that while there is broad agreement that energy is a strategic sector, specific policies remain a tug-of-war between the bureaucracy and changing political masters. End Summary.

¶2. (SBU) Econoff initially requested a meeting with Sandulescu to brief him on post's plan to co-host a renewable energy conference in the coming weeks. In response, Sandulescu outlined the Government of Romania's (GOR) plans to meet the EC target of producing at least a third of Romania's electricity from renewable sources by 2010. In Romania's case, there is already sufficient hydroelectric power available to come close to meeting this target. However, future targets will require renewables to account for an increasing share of energy, necessitating investments now in wind power. The problem is convincing companies to look somewhere other than Dobrogea (the region along the Black Sea Coast, where an already overloaded transmission grid can't handle increased production). As Sandulescu portrayed it, the mood on renewable energy, especially wind, is bullish with a high level of corporate interest and several major investments planned. The hold-up, as is often the case in Romania, is a lack of investment in the infrastructure (in this case transmission lines) needed to move electricity from where it is produced to where it is needed.

¶3. (C) Sandulescu has previously been publicly critical of the proposed "national champion" energy company (reftel). It was clear from this meeting that he still feels that the proposal is a poor one, but that he has been reined in by his bosses from making any public comment. Rather than directly answering whether or not he believes the project is sound, Sandulescu instead focused on the bureaucratic difficulties awaiting this proposal. According to Sandulescu, the State Assets Resolution Agency (AVAS), which is in charge of the privatization of state-owned enterprises, wants to wrest oversight of any new company from the MEF. (Comment: Based on past experience, post's view is that MEF is a much more competent actor in the energy arena than AVAS. End Comment.) It does not appear, at least in Sandulescu's opinion, that

an energy national champion would do much to improve transparency or efficiency in the Romanian energy sector.

¶4. (SBU) One worrying sign of how opaque the energy trading sector is the under-utilization of the energy exchange, established in 2000 with technical assistance from USAID and the World Bank. The purpose of the exchange was to increase transparency and competition for energy contracts. While this system is in place, the existence of long-term direct contracts between producers and consumers, as well as the recent practice of large consumers soliciting bids directly from producers, all mean that only 8% of Romania's energy is traded on the exchange. An argument used by the GOR in favor of a Romanian national energy champion is that such an entity would eliminate these bilateral contracts, and force energy to be traded on the exchange (reftel). However, despite legislation which already requires state-owned energy producers to use the exchange, in practice there has been little enforcement on the part of regulators. According to Sandulescu, it is unclear whether AVAS is even enforcing this requirement for companies already under its purview.

¶5. (SBU) Election year politics militate against efforts to raise the Romanian domestic gas price to international levels. Currently, Romania produces about 40 percent of its natural gas domestically, with the remaining 60 percent purchased at much higher prices from Russia. The domestic gas is sold at a regulated rate, with some politically-connected producers able to buy exclusively "domestic" gas, which provides a substantial savings compared to consumer prices. According to one American company with a presence in the market, the capped price of domestic gas

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discourages local producers from investing in new technology to coax more gas out of increasingly marginal fields. While recognizing the need to even the playing field and eventually raise the price of gas, Sandulescu said that this move will be driven more by social conditions than economics. So far no politician has been willing to champion this change at the risk of providing election fodder to opponents over stories of pensioners unable to afford enough gas to heat their homes.

¶6. (C) Comment: Sandulescu is a professional civil servant with an impressive knowledge of the energy sector in Romania. However, he is not seen as being politically connected and his views are out of sync with what post is hearing from other important energy interlocutors. These have, for the most part, touted the benefits of an energy national champion and dismissed concerns that price-induced distortions are creating real problems within the domestic market for natural gas. However, with the possibility that parliamentary elections expected for later this fall will change the political line-up, bureaucratic foot-dragging on issues like the "national energy champion" could delay implementation long enough to push these ideas off the table.

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